

Office Space Unplugged

November 21, 2005
INSIDER VIEW
By Greg Hoffmeister

Three years ago, finding real estate was a tidy, pre-packaged breeze for many recently-funded technology companies.

Space abounded, from Boston to Burlington and all points in between. What's more, the space available was usually a great deal, as prior tenants — mostly tech startups that over-expanded in the 1990s — abruptly shut their doors during Boston's recession. Landlords and sublandlords had buildings fully equipped with furniture, wiring and even computer gear, and parceled out such "plug-and-play" space to any new tenant that came along. For start up companies looking to preserve capital, the situation could not have been better: walk in, sit down, and get to work.

Those days are gone.

After 18 months of steady economic recovery, plug-and-play (P&P) space is now a precious commodity. P&P space is defined as space that is fully constructed and includes furniture, tel/data wiring and in many cases equipment like phone systems and supplemental cooling units left behind by previous occupants. The market dynamics that gave rise to P&P space have faded. The plain truth is that any growing tech company expecting to quickly and easily find low cost P&P space in Boston today is making a serious miscalculation.

At first glance the numbers might indicate a different story. Vacancy rates in some markets still top 20 percent. This rate is a sharp drop from 30 percent or more in 2003, but far from what any real estate expert would consider "tight." In some suburbs, virtually every commercial building still has space available. Rents in all but the best neighborhoods remain flat. An executive can look at all those numbers and reasonably guess that, therefore, P&P space must still be plentiful.

Dig deeper. As recession gripped Boston's tech sector and vacancy soared, much of the available space was *not* offered by landlords directly — it was sublease space put on the market by companies sputtering and desperate for cash. In other instances, landlords were saddled with large blocks of space because over exuberant tech bubble tenants in a building had failed.

Both situations lent themselves to plug-and-play deals. Tenants with extra space simply wanted to get income, and a P&P sublease was a fast way to do so. Landlords wanting to fill up space for a year or two while waiting for rents to increase could lease P&P space immediately.

Today's real estate market differs dramatically. Sublease space has declined to a small fraction of total available space, as shaky tenants either failed or regained their stability. Leases signed in 1999 or 2000 have expired and rents in core markets have improved. What P&P space remains is typically in large units not suitable for tech startups seeking only 5,000 or 10,000 square feet to launch their business.

Where does that leave startup tech companies? Entrepreneurs willing to compromise on location and layout can still find quality, affordable office space anywhere around Boston, but they must now account for furniture, wiring and equipment expenses as they compile their real estate budgets for 2006. If not, they risk being woefully under-funded as they enter next year.

Entrepreneurs then need to work with an experienced real estate advisor who can negotiate with landlords to get the best possible deal on the space itself. P&P space was a great advantage to tenants while it lasted, and those opportunities do still occur from time to time, but the real-estate market has changed. Plug-and-play space is now the exception, rather than the rule. When put into perspective, spending a little more on furniture, telecommunications and a coat of paint is still a much wiser move than wasting valuable time looking for something that doesn't exist.

GREG HOFFMEISTER is managing director of T3 Advisors, LLC a strategic real estate advisory and brokerage firm based in Waltham, MA.